



**Survey Report on the
Financial Reserves of
Social Service Agencies**

Deloitte Risk Advisory

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Foreword

In Hong Kong's social services sector, the level of financial reserves among social services agencies has been a hot topic and attracted substantial media attention, particularly after the October 2017 issuance of the Director of Audit's *Report No. 69* on the administration of lump sum grants by the Social Welfare Department.

The public has been curious, and there has been some concern about social service agencies' financial performance and how they use their reserves. This could be because the Social Welfare Department (SWD) has been providing financial support to around 140 Agencies through the Lump Sum Grant (LSG) system. This financial support is therefore the "public money". LSG is an agency-based subvention, each agency is given the autonomy and flexibility to deploy the grant to achieve agreed objectives, output, results and standards in social welfare services. Nevertheless, we must also acknowledge that LSG is not the only funding source of these agencies.

SWD's Social Welfare Services Lump Sum Grant Manual provides guidelines and specifies requirements on the use of LSG subvention. Given the current regulatory landscape and sector practices, there is limited information about how social service agencies, whether they are LSG subvented or non LSG-subvented, are deploying, managing and investing their reserves, or how much Agencies are retaining and should retain as reserves. Local knowledge and know-how are not being systematically built up and shared within the sector.

The Hong Kong Council of Social Service (HKCSS) launched the NGO Governance Platform Project to facilitate experience sharing and exchange. Deloitte Advisory (Hong Kong) supports HKCSS's mission of facilitating financial governance, reserve management and investment capacity building among Agencies in Hong Kong. As part of these efforts, Deloitte and HKCSS initiated the *Survey on the Financial Reserves of Social Service Agencies* (the Survey) to understand the sources, types and usage of Agencies' financial reserves, as well as Agencies' financial reserves planning and policies.

Understanding the current state and establishing a baseline are essential for our future work. The Survey is a pioneering initiative that attempts to understand HKCSS member Agencies' current sources and usage of reserves, as well as their management and investment, with a primary focus on two types of reserves, (1) LSG reserves and (2) general and non-designated reserves.

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Notes to readers

This Survey Report on the Financial Reserves of Social Service Agencies is solely prepared to summarize the results of the Survey on the Financial Reserves of Social Service Agencies which were collected from the Hong Kong Council of Social Service agency members during May to August 2018. This Survey Report is not to be used for any other purposes and/or by any other person or entity, except for the objective stated in I.1 of this Survey Report. Our Survey Report does not include any representation as to the quality or performance of any organizations' goods or services nor their fitness or suitability for any service user's intended purpose. Also, this Report will not provide any assurance of information and data presented.

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I. About the Survey

I.1 Objective

The objective of the Survey on the Financial Reserves of Social Service Agencies (the Survey) was **to understand the sources, types, usage, planning and policies of financial reserves of Agencies**. Deloitte was responsible for collecting the completed Surveys for data compilation and analysis. This Report summarizes the Survey results and is published by HKCSS and Deloitte.

I.2 Target

As of 17 May 2018, the HKCSS has 464 Agency members (Agencies), all of which were invited to participate in this Survey.

I.3 Period of the Survey

This Survey was distributed to HKCSS member Agencies on 17 May 2018. Responses received on or before 10 August 2018 were collected, compiled and analysed.

I.4 Survey framework

The Survey consisted of 24 questions, which are divided into four parts (see Appendix):

Part 1: Background Information of the Agency

Basic information on Agencies, such as funding sources and size, was collected.

Part 2: Overview of Financial Reserves

This part looked into the distribution of Agencies' reserves, changes in reserve levels from 2014 to 2017, and the reasons leading to those changes.

Part 3: Financial Information

This part consists of questions related to Agencies' income sources, expenditure level and changes therein. More importantly, we looked into their financial sustainability in terms of reserve level.

Part 4: Usage and Management of Reserves

Boards and committees play pivotal roles in organizations' governance. This section asked Agencies about the formation of their committees, their composition, and the level of involvement of their Boards, committees and senior management in annual budget and reserve planning. We also asked whether written policies and procedures were in place to govern Agencies' investment strategy and investment-related issues.

I.5 Financial periods

Different Agencies have different financial year closing dates. In order to be able to compare all Agencies, where an Agency's 2017 financial year was not the same as the calendar year, we used its financial year that ended in 2017.

I.6 Limitations

There are limitations and constraints in any survey. For this Survey, we acknowledge the following key constraints, which are largely beyond our control and could affect the results:

- **Self-reported information:** This Survey required Agencies to report their own information. This information was not independently verified or audited. Our analysis and any implications stated in this Report are derived from information collected directly from the Agencies. Their response bias could affect the objectivity of the information we received. In addition, respondents might be unable to respond accurately. Therefore, the Survey results may be affected by Agencies' biases or inaccurate input. To improve data quality, we clarified any incomplete or contradictory information with Agencies individually.
- **Longitudinal effect:** The Survey results are constrained by the defined timeframe. Over time, results may become less valuable as a benchmark or referencing tool due to changes in the macro-environment and other circumstances.
- **Point-to-point comparison:** Because respondents provided information for their financial years ending in 2014 and 2017, some of the observations in this Report are based on a point-to-point or "before and after" comparison that might not capture or articulate fluctuations during financial years.
- **Sampling and selection error:** Respondents chose whether to participate in this Survey, which may have resulted in sampling error by observing results from a sample of the Agency population instead of the entire population.

II. Background information of the respondents

II.1 Profile of respondents

A total of 100 responses were received, of which 57 Agencies were receiving LSG from the SWD during the Survey period. The overall response rate for the Survey was 22%.

As Table 1 shows, Agencies were categorized as LSG subvented or non-LSG subvented¹ and separated into three levels according to their number of full-time employees for analysis purposes.

Table 1 Profile of respondents

| Scale | No. of full-time employees | No. of Agencies | | |
|--------|----------------------------|------------------------|----------------------------|-------|
| | | LSG subvented Agencies | Non-LSG subvented Agencies | Total |
| Small | 50 or fewer | 10 | 40 | 50 |
| Medium | 51 – 500 | 28 | 3 | 31 |
| Large | 501 or more | 19 | 0 | 19 |
| Total | | 57 | 43 | 100 |

II.2 Agencies' income sources and distribution

The Survey asked Agencies whether they were receiving any recurrent funding, including LSG from the SWD and funding from other government departments. It also asked about the distribution of their sources of income.

Recurrent funding was defined as funds being received on a regular basis and without time limits. LSG and other recurrent government funding (e.g. Lotteries Fund Block Grant from the SWD, recurrent funding from the Department of Health, Education Bureau, Home Affairs Bureau, etc.) was considered recurrent funding.

Overall, 68% of respondents said they received no recurrent funding, other than LSG. Table 2 shows respondents' recurrent income as a proportion of total income for the 2017 financial year (FY2017). Results are shown separately for LSG subvented and non-LSG subvented Agencies. The majority of LSG subvented Agencies indicated that recurrent funding accounted for more than 50% of their total income for FY2017. On the contrary, non-LSG subvented Agencies mainly relied on non-recurrent funding.

¹ LSG subvented Agencies refers to Agencies which received LSG subventions from the SWD at the time they were filling in the Survey. Non-LSG subvented Agencies refers to Agencies that did not receive LSG subventions at the time they were filling in the Survey.

Table 2 Recurrent income as a proportion of Agencies' FY2017 service income

| Proportion of recurrent income | No. of Agencies | | | | | 100% |
|--------------------------------|-----------------|--------------|---------------|---------------|----------------|------|
| | 0% | >0% and ≤25% | >25% and ≤50% | >50% and ≤75% | >75% and <100% | |
| LSG subvented Agencies | 0 | 2 | 10 | 23 | 22 | 0 |
| Non-LSG subvented Agencies | 29 | 6 | 5 | 2 | 1 | 0 |

Total number of LSG subvented Agency: 57

Total number of non-LSG subvented Agency: 43

III. Overview of financial reserves

III.1 Composition of financial reserves

The Survey invited Agencies to indicate the composition of their financial reserves at the end of FY2017. For the purposes of the Survey, reserves are categorized into the following four types:

- A. **LSG reserves:** reserves arising from LSG received from the SWD, including provident fund reserves for snapshot staff and 6.8% posts and balances in holding accounts;
- B. **General and non-designated reserves:** reserves with no designated purpose or restrictions or the Agency has the autonomy to change the usage of reserve;
- C. **Other reserves with designated purposes or restrictions:** including but not limited to Social Welfare Development Fund, Capital Development Fund and Lotteries Fund Block Grant reserves, charitable trust reserves, other reserves from private and public donations with designated usage, or reserves assigned with designated usage by the Board of Directors, etc.; and
- D. **Property related reserves:** reserves relating to owner-occupied property and non-owner-occupied property.

This Survey focused on LSG reserves and general and non-designated reserves, which are analysed further in subsequent sections of this Report.

The responses received from LSG subvented Agencies and non-LSG subvented Agencies regarding their reserve composition as at FY2017 year-end are presented in Tables 3 and 4 below. It was observed that:

- 35 of 56 LSG subvented Agencies indicated that LSG reserves accounted for less than 50% of total reserves as at FY2017 year-end;
- General and non-designated reserves took up a larger portion of reserves at non-LSG subvented Agencies than LSG subvented ones. In fact, 13 of 43 non-LSG subvented Agencies indicated all of their reserves were general and non-designated; and
- Majority of the respondents, whether LSG subvented or non-LSG subvented, indicated they did not have any property related reserves.

Table 3 Breakdown of LSG subvented Agencies' total reserves as at FY2017 year-end

| Proportion of total reserves among LSG subvented Agencies' as at FY2017 year-end (Distribution by no. of Agencies) | | | | | | |
|--|----|--------------|---------------|---------------|----------------|------|
| Types of reserves | 0% | >0% and ≤25% | >25% and ≤50% | >50% and ≤75% | >75% and <100% | 100% |
| A. LSG reserves | 2 | 17 | 16 | 11 | 9 | 1 |
| B. General and non-designated reserves | 6 | 27 | 10 | 13 | 0 | 0 |
| C. Other reserves with designated purposes or restrictions | 1 | 33 | 11 | 8 | 3 | 0 |
| D. Property related reserves | | | | | | |
| Owner-occupied property | 45 | 9 | 1 | 1 | 0 | 0 |
| Non owner-occupied property | 53 | 3 | 0 | 0 | 0 | 0 |

Total number of respondents: 56

Table 4 Breakdown of non-LSG subvented Agencies total reserves as at FY2017 year-end

| Proportion of total reserves among non-LSG subvented Agencies as at FY2017 year-end (Distribution by no. of Agencies) | | | | | | |
|---|----------------|--------------|---------------|---------------|----------------|------|
| Types of reserves | 0% | >0% and ≤25% | >25% and ≤50% | >50% and ≤75% | >75% and <100% | 100% |
| A. LSG reserves | Not applicable | | | | | |
| B. General and non-designated reserves | 1 | 6 | 10 | 6 | 7 | 13 |
| C. Other reserves with designated purposes/restrictions | 17 | 9 | 7 | 6 | 4 | 0 |
| D. Property related reserves | | | | | | |
| Owner-occupied property | 38 | 0 | 2 | 0 | 2 | 1 |
| Non owner-occupied property | 42 | 0 | 0 | 1 | 0 | 0 |

Total number of respondents: 43

III.2 Sustainability of reserves

Agencies were asked how many months their operations could continue if they had to rely solely on FY2017 year-end reserves, assuming they would no longer receive any income, including recurrent income. The main observations are:

- Respondents' **LSG reserves**, including provident fund reserves and holding account balances, would be able to support 3.0 months of LSG-related expenditure. LSG reserve levels were in line with the maximum limit imposed by the SWD, which caps cumulative LSG reserves at 25% of an NGO's operating expenditure, excluding provident fund outgoings.
- On average, **general and non-designated reserves** would be able to support 11.2 months of Agencies' expenditure on non LSG-funded social services. It was further observed that the general and non-designated reserves of Agencies not receiving recurrent funding would support 12.7 months of non LSG-funded social services operations, but would support 7.7 months of these services at Agencies that were receiving recurrent funding. These results indicate that recurrent funding can influence how Agencies determine the level of reserves they retain.

III.3 Movement of reserves and expenditure

The Survey asked how Agencies' reserve levels changed from FY2014 year-end to FY2017 year-end. Their responses were compared to changes in respondents' related expenditure in the same period.

Table 5 summarizes these responses. It was observed that:

- The LSG reserves of most LSG subvented Agencies, 37 of 57, were higher in 2017 than in 2014, and most of these Agencies indicated that LSG related expenditure also climbed during this period;
- Even more Agencies, 47 of 57, indicated LSG related expenditure increased regardless of changes in their LSG reserves; and
- Only a few Agencies, 6 of 57, indicated reserve levels declined.

Table 5 LSG reserve level movements and changes in LSG related expenditure

| Movement of LSG reserve level (2017 vs. 2014) | Change in LSG related expenditures (2017 vs. 2014) | No. of Agencies |
|---|--|-----------------|
| Increased | Increase | 32 |
| | Stable ² | 4 |
| | Decrease | 1 |
| Unchanged | Increase | 10 |
| | Stable ² | 4 |
| | Decrease | 0 |
| Decreased | Increase | 5 |
| | Stable ² | 0 |
| | Decrease | 1 |

Total number of respondents: 57

Table 6 summarizes responses relating to general and non-designated reserves. The main observations are:

- Around half of the respondents, 46 of 96, saw general and non-designated reserves increase compared to 2014, and most of these Agencies indicated non-LSG related expenditure also climbed;
- Less than one-fifth of respondents, 17 of 96, recorded declines in general and non-designated reserves; and
- Overall, over 60% of the respondents, 59 of 96, indicated their expenditure on providing non-LSG funded social services increased.

² "Stable" refers to reserve increases or decreases of less than 10%.

Table 6 Movement of general and non-designated reserve levels and changes in other expenditure for providing non-LSG funded social services

| Movement of general and non-designated reserves level (2017 vs. 2014) | Changes in other expenditure for providing non-LSG funded social service (2017 vs. 2014) | No. of Agencies |
|---|--|-----------------|
| Increased | Increase | 34 |
| | Stable ² | 8 |
| | Decrease | 4 |
| Unchanged | Increase | 17 |
| | Stable ² | 15 |
| | Decrease | 1 |
| Decreased | Increase | 8 |
| | Stable ² | 5 |
| | Decrease | 4 |

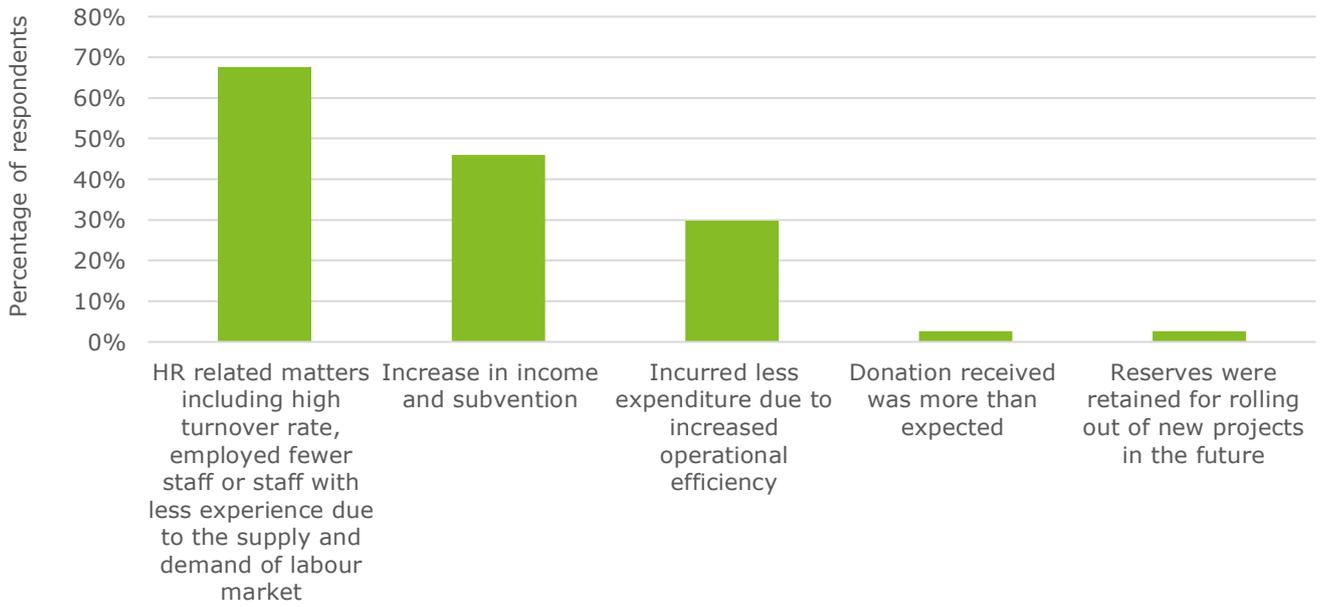
Total number of respondents: 96

III.4 Reasons for increased reserves

We were interested in understanding the reasons for the changes in reserve levels. As mentioned in Section III.3 of this Report, most of the Agencies indicated that their LSG reserves and general and non-designated reserves increased. This section covers the reasons for these increases.

Changes in reserves were driven by multiple factors, with respondents allowed to select multiple reasons in the Survey. As Graph 1 illustrates, "Human resources (HR) matters, such as high turnover rate and employing fewer staff or staff with less experience due to labour market supply and demand", which reduced HR costs, were the most commonly cited reason for increased LSG reserves. This is consistent with the results in Section IV.2 of this Report, which indicates that a substantial portion of LSG reserves are allocated to HR-related matters. Therefore, HR related matters are one of the key factors influencing LSG reserves accumulation and utilization. "Increases in income and subvention" was the second most common reason.

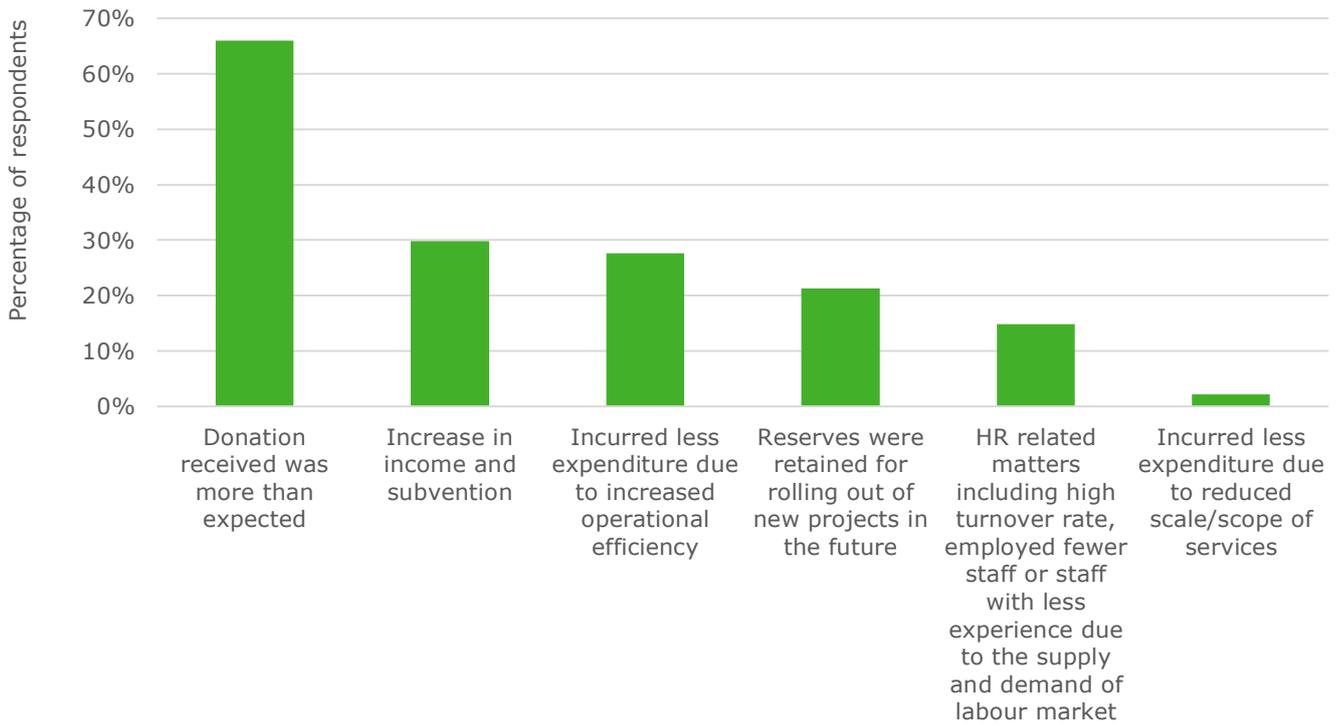
Graph 1 Reason(s) for increases in LSG reserves



Total number of respondents: 37

Where general and non-designated reserves increased, most Agencies indicated this was due to having "Received more in donations than expected". "Increases in income and subvention" and "Incurred less expenditure due to increased operational efficiency" were the next most common reasons. HR related matters are a less significant factor for increases in general and non-designated reserves than they are for LSG reserves.

Graph 2 Reason(s) for increases in general and non-designated reserves



Total number of respondents: 46

IV. Reserves planning

IV.1 Finance and Investment Committees

Committees are important bodies for organizational development, strategic planning and financial oversight. They are responsible for reviewing solutions and plans proposed by management and providing recommendations to the Board.

The Survey results suggest that 62% of Agencies had established committee(s) under their Boards of Directors to oversee finance and investment related matters. They used one of the following four structures:

- i. a single committee overseeing financial and investment matters;
- ii. a Finance Committee and an Investment Committee overseeing financial and investment matters respectively;
- iii. a finance committee overseeing finance matters; or
- iv. an investment committee overseeing investment matters.

The presence of members with professional experience, qualifications and licenses often evidences the competency of a finance or investment committee. In this Survey, we found about 84% of these committees consisted of members with professional finance and/or accounting experience, qualifications and licenses, 60% had investment/banking backgrounds and 26% had legal backgrounds. This demonstrates that most committees had members with relevant professional experience, qualifications and licenses and therefore should have the skills and expertise to execute their duties.

IV.2 Reserves usage planning

The Survey asked Agencies how they plan to utilize LSG reserves and general and non-designated reserves as at FY2017 year-end in the coming three years. Their answers are represented in Tables 7 and 8. It was observed that:

- Respondents had generally assigned more reserves to "Future employee compensation, and benefits and operating costs" and "Reserves for cash buffer or contingency, or to be planned";
- Accumulated reserves were generally not allocated to "Capital expenditure" or "Increased manpower for central administration support"; and
- Most of the respondents that had assigned more than 75% of reserves as "Reserves for cash buffer or contingency, or to be planned" were small and medium sized Agencies.

Table 7 Planned usage of LSG reserves as at FY2017 year-end

| Planned usage | Percentage of LSG reserves (Distribution by no. of Agencies) | | | | |
|--|---|-----------------|------------------|------------------|-------------------|
| | 0% | >0% and ≤25% | >25% and ≤50% | >50% and ≤75% | >75% and ≤100% |
| Future employee compensation and benefits and operating cost | 10 | 8 | 10 | 3 | 19 |
| Capital expenditure | 31 | 19 | 0 | 0 | 0 |
| Increased manpower for central administration support | 38 | 12 | 0 | 0 | 0 |
| Reserves for cash buffer or contingency, or to be planned | 18 | 4 | 9 | 5 | 14 ³ |

Total number of respondents: 50

Table 8 Planned usage of general and non-designated reserves as at FY2017 year-end

| Planned usage | Distribution of general and non-designated reserves at FY2017 year-end (by no. of Agencies) | | | | |
|--|--|-----------------|------------------|------------------|-------------------|
| | 0% | >0% and ≤25% | >25% and ≤50% | >50% and ≤75% | >75% and ≤100% |
| Future employee compensation and benefits and operating cost | 28 | 12 | 19 | 8 | 23 |
| Capital expenditure | 49 | 31 | 7 | 2 | 1 |
| Increase manpower for central administration support | 68 | 21 | 1 | 0 | 0 |
| Reserves for cash buffer or contingency, or to be planned | 21 | 13 | 21 | 3 | 32 ⁴ |

Total number of respondents: 90

³ Among the 14 Agencies, three were small-scale, nine were medium-scale and two were of large-scale.⁴ Among the 32 Agencies, 15 were small-scale, 13 were medium-scale and four were large-scale.

IV.3 Units proposing and approving the usage of reserves

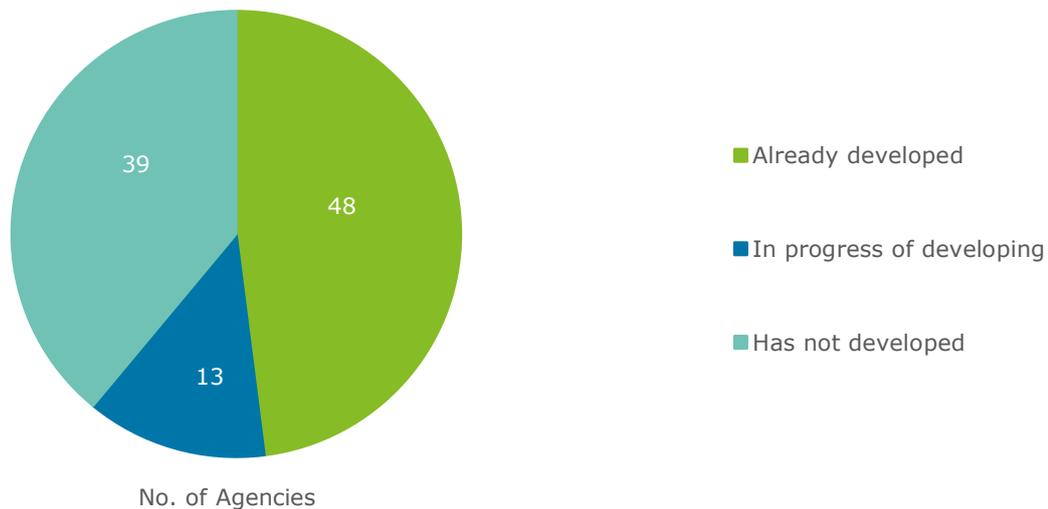
The results of the Survey suggest that almost all respondents required multiple units to propose and approve how they use their reserves. This implies that respondents had been handling reserves with due care and have involved their Boards, Committees and senior management in the process. The proposal and approval process involved units including (i) Accounting or Administrative Officer, (ii) Chief Financial Officer or Finance Manager, (iii) Agency Head, (iv) Finance Committee or Investment Committee and (v) Board of Directors.

- On average, 3.1 units were involved in preparing and approving the usage of reserves.
- 96% of the respondents had involved at least two units in the process.
- 97% of the respondents had involved their Boards of Directors in approving the usage of reserves.
- 30% of the respondents had involved their Finance Committees or Investment Committees for approving the usage of reserves.

IV.4 Establishment of written internal policies and procedures for managing and investing reserves

61 of the 100 the respondents indicated they had developed or were developing written internal policies and procedures for providing guidelines on managing and investing reserves. The remaining 39 Agencies indicated they have not developed such written policies and procedures. Of these 39 Agencies, 27 were small-scale, 10 were medium-scale and two were large-scale. Larger Agencies tended to have such written internal policies and procedures in place.

Graph 3 Written policies and procedures for managing and investing reserves



Total number of respondents: 100

IV.5 Units proposing and approving annual budgets

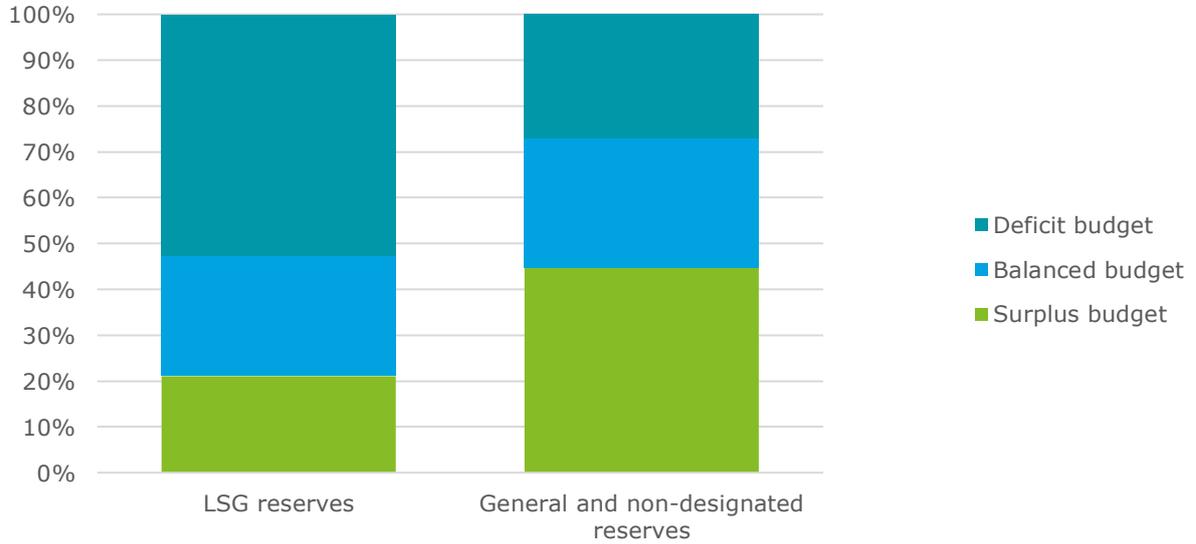
Similarly to the results in Section IV.3, almost all the respondents had implemented decision-making layers for proposing and approving their annual budgets, which implies that Agencies had been handling their budgets with due care and had involved their Boards, Committees and senior management in the process. The units involved in the proposal and approval process include (i) Accounting or Administrative Officer, (ii) Chief Financial Officer or Finance Manager, (iii) Agency Head, (iv) Finance Committee or Investment Committee and (v) Board of Directors.

- On average, 3.5 units had involved in preparing and approving annual budgets.
- 97% of the Agencies had involved at least two units in the process.
- 98% of Agencies had involved their Boards of Directors in approving the annual budget.
- 37% of Agencies had involved a Finance Committee or Investment Committee for approving the annual budgets.

IV.6 Planned budget position for FY2017 year-end

More than half of the LSG subvented Agencies that had responded were planning for LSG reserves budget deficits for FY2017 year-end, whereas most respondents indicated they were planning for general and non-designated reserves surpluses.

Graph 4 Planned budget for FY2017 year-end



V. Investment of reserves

V.1 Distribution of Agencies' self-managed or third-party managed investment

Regardless of whether respondents were LSG subvented or non-LSG subvented, most of them managed and invested reserves by themselves rather than entrusting a third party (e.g. investment company or fund manager, etc.) to do so. Only 12 of the 97 respondents had appointed third parties to manage and invest their reserves.

Table 9 Proportion of Agencies' self-managing or using a third party for investments for FY2017

| Agencies | Manager of investment | Proportion of total investment (Distribution by no. of Agencies) | | | | | |
|----------------------------|-----------------------------------|---|-----------------|------------------|------------------|-------------------|------|
| | | 0% | >0% and ≤25% | >25% and ≤50% | >50% and ≤75% | >75% and <100% | 100% |
| LSG-subvented Agencies | Self-managed | 2 | 0 | 2 | 2 | 3 | 48 |
| | Entrusted a third-party to invest | 48 | 3 | 4 | 0 | 0 | 2 |
| Non-LSG subvented Agencies | Self-managed | 0 | 0 | 3 | 0 | 0 | 37 |
| | Entrusted a third-party to invest | 37 | 0 | 2 | 1 | 0 | 0 |

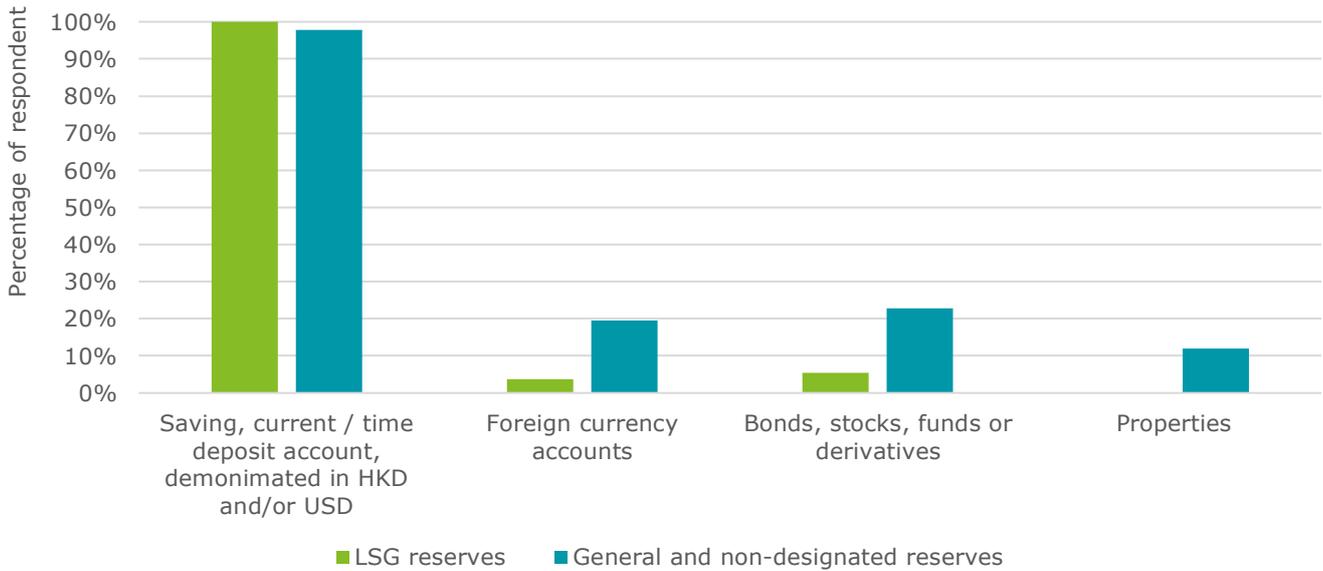
Total number of LSG subvented Agencies: 57

Total number of non-LSG subvented Agencies: 40

V.2 Allocation of reserves

The majority of the respondents only maintained their reserves in "Savings, current or time deposit accounts denominated in HKD and/or USD". This was more prevalent for LSG reserves, possibly due to investment restrictions imposed by the SWD. In general, LSG reserves were kept in less risky investments and products compared to general and non-designated reserves, where portfolios were in a wider range of investments. The results suggest the sector had adopted a very prudent approach and had a risk-averse investment appetite.

Graph 5 Allocation of LSG reserves and general and non-designated reserves for FY2017

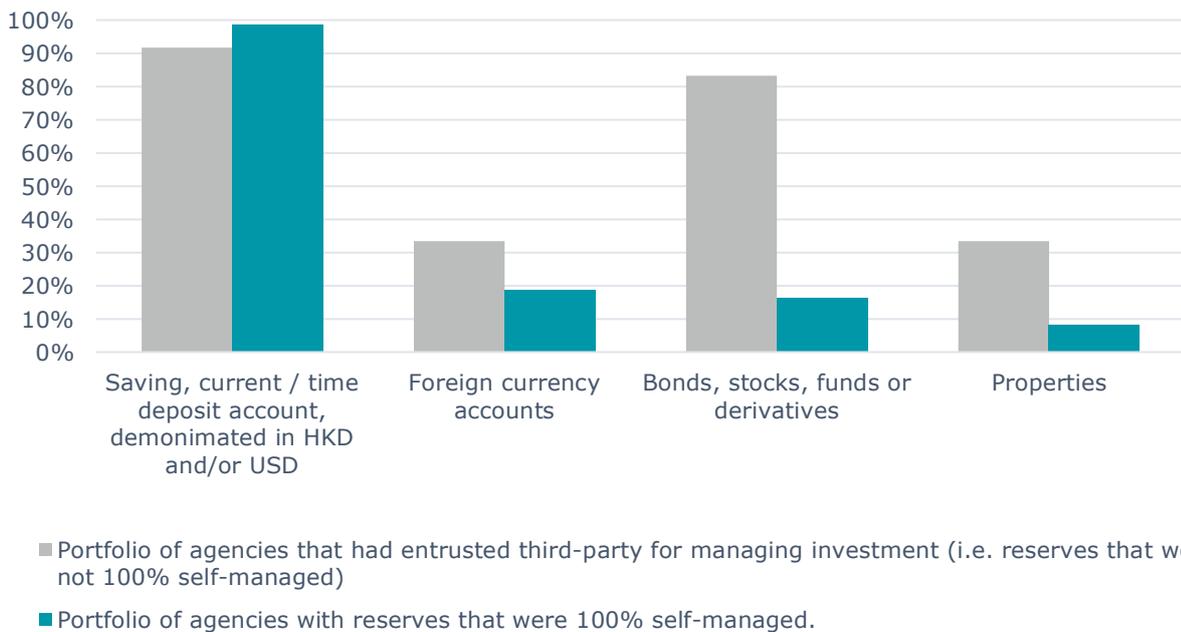


Total no. of respondents with LSG reserves: 56

Total no. of respondents with general and non-designated reserves: 95

By comparing the reserve distribution between respondents that had entrusted third parties to invest on their behalf and those that were self-managing all of their reserves, portfolios that were wholly managed by Agencies appear to be placed in more conservative investment options. Nearly risk-free investment options such as savings, current and time deposit accounts were almost the only ways in which Agencies maintain their reserves. When a third party is involved in investment management, portfolios with a wider range of investments were observed, including foreign currencies, bonds, stocks, funds or derivatives, with a relatively higher risk level.

Graph 6 Allocation of reserve portfolio of Agencies with and without entrusting third-party for reserve management for FY2017



VII. Challenges and improvements

Agencies were invited to share the challenges they encounter in reserves management and recommendations on how it can be improved. There were two main areas of feedback.

1. Optimum level of reserves

There is limited guidance locally on the optimal level of reserves a social service agency should retain. Many respondents had raised the question "What is the right amount of reserve that we should keep?" The public, labour unions, media and government bodies might question whether Agencies are building up reserves instead of utilising resources to deliver social services. On the other hand, social service agencies have to be well prepared for possible reductions in income and subvention to minimise disruption to the services they provide to users. Insufficient reserves could pose greater risks to agencies' financial stability, service sustainability and service quality. Determining the right balance is therefore crucial.

Some respondents raised concerns about the cap imposed by the SWD on LSG reserves. LSG subvented agencies are only allowed to retain 25% (or three months' worth) of their annual operating expenditure which are related to LSG subvented operations. However, respondents considered that these capped reserves can barely meet their cash flow needs, prompting calls for the limit to be raised.

2. Investment strategy for reserves

Respondents spoke about their reserve management and investment challenges. The sector has adopted a very prudent investment strategy. Despite most respondents placed their reserves solely in savings, current or time deposit accounts, as described in Section V.2, some respondents recognized the need to adopt a not-too-prudent but also not-too-risky approach to manage their reserves better. This would allow them to obtain better returns, which ultimately benefits service users. However, best investment practices have not been widely or thoroughly discussed or shared.

VIII. Conclusion

This Report provides insights into the sources, types and usage of, as well as plans and policies regarding, respondents' LSG reserves and general and non-designated reserves. It can serve as a reference for how the sector is performing in these areas.

In general, respondents have demonstrated an understanding of governance by having finance or investment committees, appointing members with relevant qualifications, using robust approval processes and involving Board and committee members in reserves usage and annual budget decisions.

However, as described in Section VII, they need more discussion, capacity building and knowledge sharing on how to determine optimum reserve levels and investment strategies. Local knowledge and know-how need to be systematically established to maximize Agencies' learning, which will ultimately benefit society.

Appendix

Deloitte.



Survey on Financial Reserves of Social Service Agencies

The Hong Kong Council of Social Service
Deloitte Advisory (Hong Kong) Limited

May 2018

Purpose of the Survey

This survey is jointly initiated by The Hong Kong Council of Social Service ("HKCSS") and Deloitte Advisory (Hong Kong) Limited ("Deloitte"). The objectives of the survey are to understand the sources, types, usage, planning and policies of financial reserves of social service agencies ("Agencies"). Deloitte will be responsible for collecting the surveys completed by each Agency for data compilation and analysis. The survey results will then be summarized and co-published in form of a report by HKCSS and Deloitte. Deloitte will not disclose individual survey's response to any third parties, including HKCSS. Deloitte will destroy all gathered information within six months upon completion and announcement of the survey report.

Survey Guideline

Please kindly refer to the following guidelines when providing financial data in the survey.

Financial Period

Different agencies may have different financial closing dates, unless otherwise specified, please use the information for the financial year ended in 2017 ("2017 year-end"), as illustrated in the below table:

| Financial closing date | Source of data | |
|----------------------------|--|--|
| | Income or expenditure-related information | Reserves or other information from the statement of financial position |
| 31 st March | From 1 st April 2016 to 31 st March 2017 | As at 31 st March 2017 |
| 30 th June | From 1 st July 2016 to 30 th June 2017 | As at 30 th June 2017 |
| 30 th September | From 1 st October 2016 to 30 th September 2017 | As at 30 th September 2017 |
| 31 st December | From 1 st January 2017 to 31 st December 2017 | As at 31 st December 2017 |

Currency Unit

Please use Hong Kong dollar as the currency unit.

(Please fill in "✓" in the appropriate box)

Part 1: Background Information of the Agency

1. Does your Agency receive lump sum grant ("LSG") subvention from the Social Welfare Department ("SWD")?

Yes

| | |
|----|--|
| No | |
|----|--|

2. Does your Agency receive recurrent funding from other government departments? (recurrent funding refers to funds being received on a regular basis and without time-limit)

Yes

| | |
|----|--|
| No | |
|----|--|

3. As at 2017 year-end, what is the number of full-time employees of your Agency?

| | |
|----------------|--|
| 25 or below | |
| 26 to 50 | |
| 51 to 100 | |
| 101 to 200 | |
| 201 to 500 | |
| 501 to 1,000 | |
| 1,001 to 2,000 | |
| 2,001 or more | |

Part 2: Overview of the Financial Reserves

4. What is the Agency's distribution of financial reserves as at 2017 year-end?

| Distribution | | Proportion of total reserves as at 2017 year-end |
|--|-----------------------------|--|
| A. LSG Reserves (refers to LSG received from SWD, including provident fund reserves of snapshot staff and 6.8% posts and LSG holding account) | | % |
| B. General and non-designated reserves (refers to reserves with no designated purpose/restriction / the Agency has the autonomy to change the usage of reserve) | | % |
| C. Other reserves with designated purposes/restrictions (e.g. reserve of Social Welfare Development Fund, reserve of Capital Development Fund, reserve of Lotteries Fund Block Grant, reserve of charitable trusts, other reserves from private and public donations with designated usage, or reserves assigned with designated usage by the Board of Directors, etc) | | % |
| D. Property related reserve | Owner-occupied property | % |
| | Non owner-occupied property | % |
| Total | | 100% |

From question 5 onwards, unless otherwise specified, please **focus on "A. LSG reserves" and "B. General and non-designated reserves"**. Please ignore "C. Other reserves with designated purposes/restrictions" and "D. Property related reserve".

5. Comparing the amount of reserve as at 2017 year-end to 2014 year-end (i.e. 3 years ago), the "LSG reserves" and " General and non-designated reserves" had:

| Change | A. LSG reserves | B. General and non-designated reserves | Based on the answer, |
|--|-----------------|--|-------------------------|
| Increased by more than 50% | | | please go to question 6 |
| Increased by 26% to 50% | | | |
| Increased by 10% to 25% | | | |
| Remained stable (the change is within 10%) | | | please go to question 8 |
| Decreased by 10% to 25% | | | please go to question 7 |
| Decreased by 26% to 50% | | | |
| Decreased by more than 50% | | | |

6. Why was/were there such an **increase in reserves** in question 5? (more than one option can be selected) :

| Reason(s) | A. LSG reserves | B. General and non-designated reserves |
|---|-----------------|--|
| Donation received was more than expected | | |
| Incurred less expenditure due to increased operational efficiency | | |
| Incurred less expenditure due to reduced scale/scope of services | | |
| Reserves were retained for rolling out of new projects in the future | | |
| Employed fewer staff or staff with less experiences due to the supply and demand of labour market | | |
| Employee turnover rate was higher than expected | | |
| Other reasons (Please specify:) | | |
| Other reasons (Please specify:) | | |
| Other reasons (Please specify:) | | |

Please go to question 8.

7. Why was/were there such a **decrease in reserves** in question 5? (more than one option can be selected):

| Reason(s) | A. LSG reserves | B. General and non-designated reserves |
|--|-----------------|--|
| Donation received was less than expected | | |
| Incurred higher operating cost | | |
| Incurred more expenditure due to increased scale/scope of services | | |
| Reserves were utilised for rolling out of new services | | |
| Employed more experienced staff and need to draw reserve to cover expenses on salaries | | |
| Low staff turnover and need to draw reserve to cover expenses on salaries | | |
| Other reasons (Please specify:) | | |
| Other reasons (Please specify:) | | |
| Other reasons (Please specify:) | | |

Part 3: Financial Information

8. For financial year ended 2017, the **LSG-related income and other income (social services-related income only, excluding education and medical services-related income)** of your Agency are:

| Income | LSG-related income | Other income (social services-related income only) |
|-------------------------------|---------------------------|--|
| HK\$500,000 or below | | |
| HK\$500,001 – 1,500,000 | | |
| HK\$1,500,001 – 5,000,000 | | |
| HK\$5,000,001 – 10,000,000 | | |
| HK\$10,000,001 – 50,000,000 | | |
| HK\$50,000,001 – 100,000,000 | | |
| HK\$100,000,001 – 250,000,000 | | |
| More than HK\$250,000,000 | | |

9. For financial year ended 2017, what was the distribution of the sources of the Agency's total social services income?

| Distribution | Proportion of total annual income |
|---|--|
| Government funding - Lump Sum Grant from Social Welfare Department (as indicated in Annual Financial Report) | % |
| Government funding - Other recurrent government funding (e.g. Lotteries Fund Block Grant from SWD, recurrent funding from Department of Health, Education Bureau, Home Affairs Bureau, etc.) | % |
| Government funding - Non-recurrent government funding (project-based/time-limited funding) | % |
| Hong Kong Jockey Club/Community Chest recurrent funding | % |
| Hong Kong Jockey Club/Community Chest non-recurrent funding (project-based/time-limited funding) | % |
| Donations (incl. corporate/private foundation donations, public donations, fundraising events, individual donations, and overseas donations) | % |
| Membership fees and service fees/sales | % |
| Income from endowment/investment (incl. interests from bank accounts) | % |
| Others (Please specify:) | % |
| Total | 100% |

10. The average annual expenditure for the last three years (i.e. 2015, 2016, and 2017) were:

| Expenditure | LSG-related expenditure | Other expenditure (for providing non LSG-funded social services) |
|-------------------------------|--------------------------------|--|
| HK\$500,000 or below | | |
| HK\$500,001 – 1,500,000 | | |
| HK\$1,500,001 – 5,000,000 | | |
| HK\$5,000,001 – 10,000,000 | | |
| HK\$10,000,001 – 50,000,000 | | |
| HK\$50,000,001 – 100,000,000 | | |
| HK\$100,000,001 – 250,000,000 | | |
| More than HK\$250,000,000 | | |

11. Based on your understanding of your Agency:

11.a Assuming that your Agency has no other income (including LSG subventions) and solely relies on the **LSG reserves** as at **2017 year-end**, how long can your Agency sustain and afford the **LSG-related expenditure**?

| | |
|--|---|
| | Month(s) |
| | Not applicable (agency not receiving LSG) |

11.b Assuming that your Agency has no other income and solely relies on the **general and non-designated reserves** as at **2017 year-end**, how long can your Agency sustain and afford the **other expenditure (for providing non LSG-funded social services)**?

| | |
|--|--|
| | Month(s) |
| | Not applicable (all services are LSG-funded) |

12. The annual expenditure of your Agency in 2017, when compared to that in 2014 (i.e. 3 years ago), had:

| Change | LSG-related expenditure | Other expenditure (for providing non LSG-funded social services) |
|---|--------------------------------|--|
| Increased by more than 50% | | |
| Increased by 26% to 50% | | |
| Increased by 10% to 25% | | |
| Remained stable (the change is within 10%) | | |
| Decreased by 10% to 25% | | |
| Decreased by 26% to 50% | | |
| Decreased by more than 50% | | |

Part 4: Usage and management of reserves

13. Does your Agency currently have a Finance Committee and/or Investment Committee under the Board of Directors?

| | Finance Committee | Investment Committee |
|---|--------------------------|-----------------------------|
| Yes (the same committee is responsible for overseeing the finance and investment related matters) | | |
| Yes (the Agency has an independent Finance Committee and/or Investment Committee) | | |
| No (Please go to question 15) | | |

14. Do(es) the committee(s) above (if applicable) include any members possessing relevant professional experiences, qualifications or licenses (e.g. finance/accounting, investment/banking, legal, etc.)?

| | (i) Finance committee | (ii) Investment committee | (i) Finance and investment committee |
|--------------------|------------------------------|----------------------------------|---|
| Finance/accounting | | | |
| Investment/banking | | | |
| Legal | | | |

15. What are your Agency's plan on the usage of "LSG reserves" and "General and non-designated reserves" as at 2017 year-end? You may consider the budget of the coming 3 years when answering to this question.

| Planned usage(s) | A. LSG reserves | B. General and non-designated reserves |
|---|------------------------|---|
| <i>Current services</i> | | |
| - Future employee compensation and benefits (snapshot staff) | % | Not applicable |
| - Future employee compensation and benefits (other staff) | % | % |
| - Capital expenditure (cost relating to acquisition of fixed assets or extending the durability of fixed assets, e.g. renovation, acquisition of equipment, upgrade of computer systems) | % | % |
| - Operating cost for providing LSG related services | % | % |
| - Operating cost for providing non-LSG related services | Not applicable | % |
| <i>Proposed new services</i> | | |
| - Future employee compensation and benefits (snapshot staff) | % | Not applicable |
| - Future employee compensation and benefits (other staff) | % | % |
| - Capital expenditure (cost relating to acquisition of fixed assets or extend the durability of fixed assets, e.g. renovation, buying equipment, computer system upgrade) | % | % |
| - Operating cost for provision of LSG related new services | % | % |
| - Operating cost for provision of non-LSG related new services | Not applicable | % |
| <i>Increased manpower on central administration support</i> (e.g. clerical, accounting, IT, social media, etc.) | % | % |
| <i>Reserve for cash flow buffer or contingency</i> | % | % |
| <i>Others</i> (Please specify:) | % | % |
| <i>To be planned</i> | % | % |
| Total | 100% | 100% |

16. The responsible unit(s) in your Agency for proposing and approving the **usage of reserves** are:

| Units | Proposing unit(s) (more than one option can be selected) | Approving unit(s) (more than one option can be selected) |
|---|--|--|
| Board of Directors | | |
| Finance or investment- related committee under the Board of Directors | | |
| Agency Head | | |
| Chief Financial Officer / Finance Manager | | |
| Accounting / Administrative Officer | | |
| Others (Please specify:) | | |

17. The responsible unit(s) in your Agency for proposing and approving the **investment strategy of reserves** are:

| Units | Proposing unit(s) (more than one option can be selected) | Approving unit(s) (more than one option can be selected) |
|--|--|--|
| Board of Directors | | |
| Finance or investment-related committee under the Board of Directors | | |
| Agency Head | | |
| Chief Financial Officer / Finance Manager | | |
| Accounting / Administrative Officer | | |
| Others (Please specify:) | | |

18. Are any written internal policies and procedures established by your Agency for providing guideline on managing and investing reserves?

Yes

| | |
|--|--|
| No | |
| No (but the Agency is in progress to develop the policy and procedure) | |

19. What is the distribution of your Agency's self-managed or third-party managed investment?

| | Percentage |
|--|-------------------|
| Self-managed by Agency | % |
| Entrusted a third-party to invest (e.g. investment company or fund managers) | % |
| Total | 100% |

20. Your Agency maintains the reserves in: (more than one option can be selected)

| Way(s) | A. LSG reserves | B. General and non-designated reserves |
|---|------------------------|---|
| Saving or current accounts with banks, demonimated in Hong Kong and/or US dollars | | |
| Time deposit accounts with banks, denominated in Hong Kong and/or US dollars | | |
| Bank accounts, denominated in currencies other than Hong Kong and US dollars | | |
| Investment grade bonds | | |
| Non-investment grade bonds | | |
| Blue-chip stocks (e.g. Hang Seng Index constituents) | | |
| Other stocks | | |
| Funds | | |
| Derivatives (e.g. futures, options, warrants etc.) | | |
| Properties (owner-occupied) | | |
| Properties (rental income or other purposes) | | |
| Others (Pleaes specify:) | | |

21. The responsible unit(s) in your Agency for preparing and approving the **annual budget** are (more than one option can be selected):

| Unit | Preparing unit(s) (more than one option can be selected) | Approving unit(s) (more than one option can be selected) |
|--|--|--|
| Board of Directors | | |
| Finance or investment-related committee under the Board of Directors | | |
| Agency Head | | |
| Chief Financial Officer/Manager | | |
| Accounting / Administrative Officer | | |
| Others (Please specify: _____) | | |

22. For the latest annual budget (e.g., for the year ended 2017) for LSG reserves, and general and non-designated reserves, the budget was a:

| | A. LSG reserves | B. General and non-designated reserves |
|-----------------|------------------------|---|
| Surplus budget | | |
| Balanced budget | | |
| Deficit budget | | |

23. In last year (i.e. the year ended in 2016), is there any significant variance between the budgeted surplus/deficit and the actual surplus/deficit, for LSG reserves and general and non-designated reserves?

| | A. LSG reserves | B. General and non-designated reserves |
|--|------------------------|---|
| Significant variance (more than 10%), but actual performance is better than expected | | |
| No significant variance (variance is within 10%) | | |
| Significant variance (more than 10%), but actual performance is worse than expected | | |

24. What is/are challenge(s) encountered by the Agency in managing the reserves? Do you have any recommendation(s) regarding how agencies' management of reserves can be improved (optional):



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The Hong Kong Council of Social Service (HKCSS) is a federation of non-government social service agencies of Hong Kong. We were established in 1947 with the aim to plan and coordinate large scale relief works and social welfare after the Second World War. In 1951, we became a statutory body under the ordinance, chapter 1057.

HKCSS has since become an essential partner of the Hong Kong Government in social welfare and development. Today we represent 480 Agency Members, providing quality social welfare service through their 3,000 operating units in Hong Kong.

For a long time, board members of non-government social service agencies have contributed their time, knowledge and experience voluntarily. Governing boards of organizations assumes an extremely important role in driving the development of not just respective organizations, but social welfare sector. As the society evolves ever quicker and faces more rapid changes and even more complex problems, public expectation on social service agencies' transparency, accountability and service quality have become increasingly high. Facing these expectations and demands, agencies' boards have great responsibilities to enhance organization governance so as to improve service quality, in turn increasing public trust and support for the agencies, and adding positive momentum to the development of social welfare and the society at large. Supported by The Lotteries Fund, HKCSS has introduced a four-year pilot program, NGO Governance Platform Project, in 2016 to encourage NGO board members from diverse background to interact, share and learn from each other.